Missouri Higher Education Loan Authority

Financial Statements for the
Years Ended June 30, 2002 and 2001 and
Independent Auditors' Report

MISSOURI HIGHER EDUCATIONAL LOAN AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Missouri Higher Education Loan Authority:

We have audited the accompanying statements of net assets of the Missouri Higher Education Loan Authority (the "Authority") as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Higher Education Loan Authority, as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Authority adopted Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* for the year ended June 30, 2002.

The management's discussion and analysis on pages 2-4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri
September 6, 2002

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2002
(UNAUDITED)

THE AUTHORITY

The Missouri Higher Education Loan Authority (the "Authority") is a body corporate and politic created by the General Assembly of the State of Missouri through passage of HB 326, signed into law on June 15, 1981. The Authority was created in order to insure that all eligible post-secondary education students have access to student loans that are guaranteed or insured. The act was amended, effective August 28, 1994, to provide the Authority with generally expanded powers to finance, acquire, and service student loans.

The Authority owns and services student loans established by the Higher Education Act under the Federal Family Education Loan Program ("FFELP"). Loans authorized under FFELP include Subsidized and Unsubsidized Stafford, Parental ("PLUS"), and Consolidation loans. The Authority also owns Health Education Assistance Loans ("HEAL") established by the Public Health Service Act insured through the Department of Health and Human Services ("HHS"). In addition, the Authority is the lender and guarantor for supplemental loans made available to students in the Midwestern area who have reached the maximum available under the FFELP. There are seven types of loans under the supplemental program providing for eligible borrowers attending eligible medical schools, law schools, undergraduate, technical schools, graduate schools, and pharmacy schools as well as graduate students studying for a State Bar Examination.

During fiscal year 2002, the Authority purchased $878.4 million in student loan principal from a variety of financial institutions. This compares to purchases of $646.4 million during fiscal year 2001 representing an increase of 36% over the previous fiscal year and translates into a growth of 26% in the overall student loan portfolio.

The Authority is able to finance the purchase of student loans through the issuance of taxable and tax-exempt bond issues as well as recycled funds. The Authority issued $70.6 million in tax-exempt bonds during fiscal year 2002, compared to $59.4 million in tax-exempt bonds and $750.0 million in taxable bonds during fiscal year 2001. The Authority also has an operating line of credit in the amount of $100 million. The credit instrument is available to purchase eligible student loans in addition to any bond financing.

This report includes three financial statements: the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows. These financial statements are prepared in accordance with Government Accounting Standards Board principles. The statements of net assets present the financial position of the Authority at the end of the fiscal year and includes all assets and liabilities of the Authority. The statements of revenues, expenses and changes in net assets present the Authority's results of operations. The statements of cash flows provide a view of the sources and uses of the Authority's cash resources.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002
(UNAUDITED)

CONDENSED FINANCIAL POSITION
(In thousands)

	2002	2001
Cash, cash equivalents and investments	$ 193,902	$ 577,929
Accrued interest receivable	53,213	48,656
Capital assets	16,376	8,140
Other	8,482	8,994
Student loans receivable	2,458,765	1,951,055
Total assets	$2,730,738	$2,594,774
Current liabilities	$ 130,105	$ 79,006
Long-term liabilities	2,474,061	2,408,912
Total liabilities	$2,604,166	$2,487,918
Invested in capital assets	$ 16,376	$ 8,140
Restricted	35,483	34,702
Unrestricted	74,713	64,014
Total net assets	$ 126,572	$ 106,856

CONDENSED OPERATING RESULTS
(In thousands)

	2002	2001
Interest on student loans	$ 127,265	$ 130,835
Special allowance	10,805	10,369
Investment income	8,916	8,276
Total operating revenue	146,986	149,480
Bond expense	72,568	103,351
Administrative and general expense	33,584	28,471
Provision for arbitrage rebate	21,118	9,157
Total operating expense	127,270	140,979
Change in net assets	$ 19,716	$ 8,501

FINANCIAL ANALYSIS
2002 AS COMPARED TO 2001

Financial Position

Total assets increased $136.0 million or 5.2% compared to an increase in liabilities of $116.2 million or 4.7% resulting in an increase to the Authority's net assets of $19.7 million or 18.5%.

Cash, cash equivalents and investments decreased by 66.4% to $193.9 million from $577.9 million. The decrease in cash, cash equivalents and investments was due largely to the issuance of $500 million in bonds during the last month of fiscal year 2001. Student loans outstanding increased 26.0% from $1,951 billion to $2,459 billion reflecting the funds invested in loans within fiscal 2002.

During fiscal 2002, the Authority recorded a net increase in capital assets of $8.2 million due to completed construction of the Authority's corporate headquarters located at 633 Spirit Drive in Chesterfield, Missouri.

The slight increase in net bonds payable compared to the large increase in loans outstanding is a direct result of the late bond issuance the prior fiscal year and subsequent loan purchases during fiscal 2002.

A decrease of 38.7% in accrued bond interest is the result of historic lows in market rates. Conversely, the low rate environment is conducive to creating arbitrage rebate liability representative of the 100% increase between fiscal 2001 and 2002.

Operating Results

Total operating revenue decreased $2.5 million driven by the decrease in interest on loans. For instance, subsidized and unsubsidized Stafford loans made between October 1, 1998 and July 1, 2003, which are in status other than in-school, grace and deferment bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%. Loans made within the same period with in-school, grace and deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%. The rate is adjusted annually on July 1. During fiscal 2001 the rate on these loans was set at 8.19% and 7.59%, respectively. The rate on the same loans during fiscal 2002 was 5.99% and 5.39%, respectively.

Total operating expense decreased $13.7 million driven by a $30.8 million decrease in bond expense from fiscal 2001. Again, historic lows in the market environment markedly reduced the cost of funds. Relative to the interest expense decrease was the increase in arbitrage expense of $12.0 million, or 131%. Continually falling market rates resulted in a materially higher yield in some of the tax-exempt issues. Administrative and general expense increased $5.1 million or 18.0% relative to the growth in the loan portfolio.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF NET ASSETS
JUNE 30, 2002 AND 2001
(In thousands)

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 5,744	$ 4,180
Unrestricted	157,899	338,859
Total cash and cash equivalents	163,643	343,039
Investments held by Trustee:		
Restricted	-	24,799
Unrestricted		204,368
Total investments held by Trustee	-	229,167
Student loans receivable	21,128	20,539
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	5,266	5,552
Special allowance	2,664	1,284
Investments held by Trustee	440	146
Student loans receivable	44,843	41,674
Miscellaneous receivables and prepaid expenses	1,072	1,679
Deferred charges	249	259
Total current assets	239,305	643,339
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	29,739	5,723
Unrestricted	520	
Total investments held by Trustee	30,259	5,723
Student loans receivable	2,437,637	1,930,516
Prepaid pension expense	4,123	4,310
Deferred charges - at cost less accumulated amortization of $1,672 in 2002 and $1,483 in 2001	3,038	2,746
Capital assets - at cost less accumulated depreciation of $2,071 in 2002 and $3,934 in 2001	16,376	8,140
Total long-term assets	2,491,433	1,951,435
TOTAL	$2,730,738	$2,594,774

LIABILITIES AND NET ASSETS	2002	2001
CURRENT LIABILITIES:		
Bonds payable - net	$ 22,378	$ 52,267
Line of credit	95,000	9,482
Accrued interest payable	7,997	13,041
Other liabilities	4,730	4,216
Total current liabilities	130,105	79,006
LONG-TERM LIABILITIES:		
Bonds payable - net	2,438,127	2,390,912
Arbitrage rebate payable	35,934	18,000
Total long-term liabilities	2,474,061	2,408,912
Total liabilities	2,604,166	2,487,918
NET ASSETS:		
Invested in capital assets	16,376	8,140
Restricted	35,483	34,702
Unrestricted	74,713	64,014
Total net assets	126,572	106,856
TOTAL	$2,730,738	$2,594,774

See notes to financial statements.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2002 AND 2001
(In thousands)

	2002	2001
OPERATING REVENUES:		
Interest on student loans	$ 108,255	$ 111,646
U.S. Secretary of Education:		
Interest subsidy	19,010	19,189
Special allowance	10,805	10,369
Investment income:		
Interest on cash equivalents and investments	4,446	8,331
Gain (loss) on investments held by Trustee	4,346	(161)
Servicing fee income	124	106
Total operating revenues	146,986	149,480
OPERATING EXPENSES:		
Interest expense	66,121	98,871
Provision for arbitrage rebates	21,118	9,157
Salaries and employee benefits	11,117	9,747
Program participation fees	9,628	7,046
Bond maintenance fees	6,259	4,311
Computer services	3,910	3,356
Letter of credit fees	1,025	1,056
Depreciation	793	794
Amortization of bond issuance costs	188	169
Other operating expenses	7,111	6,472
Total operating expenses	127,270	140,979
CHANGE IN NET ASSETS	19,716	8,501
NET ASSETS, BEGINNING OF YEAR	106,856	98,355
NET ASSETS, END OF YEAR	$ 126,572	$ 106,856

See notes to financial statements.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001
(In thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$ (913,918)	$ (667,541)
Student loan repayments	426,427	307,562
Payment to employees and vendors	(37,043)	(33,601)
Cash received for interest	111,027	116,855
Other	3,388	2,780
Net cash from operating activities	(410,119)	(273,945)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds - net	68,935	805,148
Proceeds from line of credit	95,000	9,482
Repayment of bonds	(52,879)	(52,399)
Repayment of line of credit	(9,482)	
Interest paid on bonds and line of credit	(70,366)	(99,227)
Net cash from noncapital financing activities	31,208	663,004
CASH FLOWS FROM CAPITAL ACTIVITIES -		
Purchase of capital assets - net	(9,462)	(7,165)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments held by Trustee	232,777	63,190
Purchases of investments held by Trustee	(23,800)	(228,193)
Net cash from investing activities	208,977	(165,003)
CHANGE IN CASH AND CASH EQUIVALENTS	(179,396)	216,891
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	343,039	126,148
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 163,643	$ 343,039

(Continued)

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001
(In thousands)

	2002	2001
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	$ 19,716	$ 8,501
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	793	794
Loan and bond charges	13,146	8,217
Provision for arbitrage rebates expense	21,118	9,157
Interest expense	65,322	98,092
Purchases of student loans and accrued interest receivable	(899,653)	(657,003)
Transfer fees paid for student loans	(14,265)	(10,538)
Repayment of student loans receivable	426,427	307,562
(Gain)/loss on investments held by Trustee	(4,346)	161
Loss on disposal of capital assets	433	
Change in assets and liabilities:		
Increase in student loans receivable	(31,352)	(21,198)
Increase in accrued interest receivable	(4,557)	(9,612)
Increase in miscellaneous receivables and prepaid expenses	(231)	(1,307)
Decrease in arbitrage rebate payable	(3,184)	(8,239)
Increase in other liabilities	514	1,468
Total adjustments	(429,835)	(282,446)
Net cash used in operating activities	$ (410,119)	$ (273,945)

See notes to financial statements. (Concluded)

1. DESCRIPTION OF THE ORGANIZATION

Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981, created the Missouri Higher Education Loan Authority (the "Authority") for the purpose of providing a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its political subdivisions.

The Authority is the lender and guarantor for supplemental loans made available to students in the Midwestern area who have reached the maximum available under the Federal Family Education Loan Program provided under the Higher Education Act. The balance of these loans outstanding is less than 3% of the total loan receivable balance.

Under the bond agreements from the various bond issuances, the Authority purchases loans from a variety of financial institutions with whom they have loan purchase commitments. Of the total remaining commitments at June 30, 2002, 88% are with ten financial institutions and their branches. The Authority relies on these sources of loans to increase the loans owned by the Authority. Should any of these ten primary financial institutions cease business operations, the student loans would be originated by another financial institution or directly by the federal government. Management does not believe that the volume of loans purchased would be significantly impacted by lenders ceasing operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting – The Authority's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The Authority's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The Authority applies all applicable Financial Accounting Standards Board pronouncements which do not conflict with Governmental Accounting Standards Board ("GASB") pronouncements.

In accordance with the bond resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond related funds. The various bond funds are combined as one segment for financial statement purposes (see Note 14). Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type.

New Accounting Pronouncements – During fiscal year 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. Statement No. 34, commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effect on the Authority's annual financial statements was the addition of Management's Discussion and Analysis as required supplementary information. Additionally, changes were made to the June 30, 2001 financial statements to conform to GASB 34 presentation requirements.

Use of Estimates - The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net assets dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the arbitrage rebate payable.

The Authority invests in various securities including U.S. or Missouri government securities, and repurchase agreements. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

Cash Equivalents - The Authority considers all investment securities with maturities of less than 90 days at date of purchase to be cash equivalents. All cash equivalents whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted cash equivalents (see Note 7).

Investments Held by Trustee – Investments are recorded at fair market value. In accordance with the bond resolutions, such investments consist of cash, securities of the Federal or Missouri governments or their agencies and repurchase agreements. The securities underlying the repurchase agreements are book entry securities. During the years ended June 30, 2002 and 2001, the securities were delivered by appropriate entry into a third-party custodian's account designated by the Authority under a written custodial agreement that explicitly recognizes the Authority's interest in the securities. All investments whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted investments (see Note 7).

Student Loans Receivable – Student loans receivable are stated at the principal amount outstanding adjusted for premiums. The related interest income generated from the loans is offset by premium amortization expense. Premiums on student loans are amortized on a straight-line basis over the estimated life of new loans purchased. The straight-line basis approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2002 and 2001, the Authority amortized loan premiums on a straight-line basis over three years and five years, respectively. The change in amortization in 2002 was a result of students obtaining more favorable loan interest rates through consolidated loans and additional research conducted by the Authority to determine the average life of a new loan purchased. In addition, for the years ended June 30, 2002 and 2001, the Authority expensed all premiums for pool of loan

purchases with less than $40 and $20, respectively, of initial premiums. The resulting impact on interest income due to the change in policy is insignificant.

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest subsidy payments until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution.

The U.S. Secretary of Education provides a special allowance to lenders participating in the Federal Family Education Loan Program. The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of 91-day United States Treasury bills, to the average daily unpaid principal balance and capitalized interest of student loans held by the Authority. The special allowance is accrued as earned. For loans first disbursed from January 1, 2000, through June 30, 2003, the legislation changed the lender index to the three-month financial Commercial Paper ("CP") rate from the 91-day Treasury bill rate.

Miscellaneous Receivables and Prepaid Expenses **-** Miscellaneous receivables and prepaid expenses consist primarily of receivables from service bureaus, prepaid letter of credit fees and prepaid pension costs.

Deferred Charges **-** Deferred charges consist of bond issuance costs. Deferred charges are amortized over the life of the bonds using a method that produces substantially the same results as the effective interest method.

Capital Assets **-** Capital assets consist of land, building, office furniture and equipment, and leasehold improvements recorded at cost. The Authority's policy is to capitalize all expenditures in excess of $10. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and generally five years for all other asset classes.

Net Assets – The net assets of the Authority are classified into three categories: unrestricted, restricted and invested in capital assets. Unrestricted net assets include net assets available for the operations of the Authority and activities not accounted for in the Bond Fund. Restricted net assets consist of the debt service reserve accounts and rebate accounts discussed in Note 7. The assets invested in capital assets are discussed in Note 6.

Operating Revenues and Expenses – Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore loan income, net investment income and interest expense are shown as operating revenues and expenses in the statements of revenue, expenses, and changes in net assets.

Income Taxes **-** The Authority is a body corporate and politic of the State of Missouri and is tax-exempt.

Interest Expense **-** Interest expense primarily includes scheduled interest payments on bonds as well as accretion of bond discounts and amortization of repricing fees. Additionally, interest expense includes interest payments on the Authority's line of credit borrowing.

Bond Maintenance Fees **-** Bond maintenance fees consist primarily of rating agency fees, broker commissions and auction rate fees on auction rate certificates.

***Program Participation Fees* -** The Authority must remit each month to the U.S. Department of Education (the "Department") an interest payment rebate fee for all of its Federal consolidation loans made on or after October 1, 1993. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest of the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the principal and accrued interest of the loans. In addition to the monthly payment, a 0.5% origination fee is paid to the Department on each consolidation loan made. Neither fee is charged to the borrower.

Allocated Expenses – Allocated expenses reflect reimbursement by the Bond Fund for an allocable portion of operating expenses (i.e., salaries and employee benefits, supplies, etc.) initially paid from the Operating Fund.

Risk Management – The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss. The Authority will record an estimated loss from a claim as an expense and a liability if it meets the following requirements: (1) information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

3. CASH AND CASH EQUIVALENTS

At June 30, 2002 and 2001, the Authority's carrying amount of deposits was $8,961 and $9,493 and the bank balance was $10,811 and $8,978, respectively. Cash is insured up to specified limits by the Federal Deposit Insurance Corporation (FDIC). Balances in excess of FDIC coverage are insured by other insurance through the institutions at which the Authority banks.

Cash equivalents are categorized into three categories of credit risk: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name or (3) uninsured and unregistered with securities held by the counterparty, or trust department or agent, but not in the Authority's name. At June 30, 2002 and 2001 the Authority held $5,744 and $328,835, respectively, of cash equivalents in "Flexicash" repurchase transactions. These cash equivalents are category 2 investments. Money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. At June 30, 2002 and 2001, the Authority's investment in money market funds totaled $148,938 and $4,711, respectively.

4. INVESTMENTS HELD BY TRUSTEE

Investments held by Trustee at June 30, 2002 and 2001 are summarized as follows:

	2002	2001
FNMA discount note	$ 24,016	$ 224,482
Repurchase agreements	5,723	5,723
Mortgage-backed securities	520	3,202
U.S. Treasury securities		1,483
Total	$ 30,259	$ 234,890

At June 30, 2002 and 2001, all investments are insured or registered, or securities held by the Authority or its agent in the Authority's name. All investments held as of June 30, 2002 and 2001 are category 1 investments, as defined in Note 3.

5. STUDENT LOANS RECEIVABLE

Student loans receivable are either insured by the Secretary of the United States Department of Health & Human Services (the Secretary of HHS), or by state organizations, namely the Missouri Department of Higher Education on behalf of the Coordinating Board for Higher Education (CBHE), United Student Aid Funds, Inc. (USA Funds), the Student Loan Guarantee Foundation of Arkansas (SLGFA), Pennsylvania Higher Education Assistance Agency (PHEAA), the Tennessee Student Assistance Corporation (TSAC), the California Student Aid Commission (CSAC), the Illinois Student Assistance Commission (ISAC), the Kentucky Higher Education Assistance Authority (KHEAA), the Educational Credit Management Corporation (ECMC), or the Nebraska Student Loan Program (NSLP), as to principal and accrued interest to the fullest extent allowed under current law. The supplemental loans are not federally insured; however the Authority obtains insurance from a third-party or self-insures such loans.

Student loans receivable at June 30, 2002 and 2001 are as follows:

	2002	2001
CBHE	$ 895,999	$ 747,979
USA Funds	423,092	402,645
SLGFA	344,397	277,246
PHEAA	289,548	277,845
Secretary of HHS	219,697	136,644
TSAC	96,863	19,553
CSAC	46,775	12,174
ISAC	37,603	31,891
KHEAA	24,018	675
ECMC	8,219	261
NSLP	8,010	1,037
Other	3,300	469
Total federal loans	2,397,521	1,908,419
Supplemental loans	61,244	42,636
Total student loans receivable	$2,458,765	$1,951,055
Weighted average yield at end of period	6.45 %	7.93 %

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Construction in process	3,002	8,000	(11,002)	
Depreciable capital assets:				
Building		11,499		11,499
Furniture and equipment	5,448	974	(2,973)	3,449
Leasehold improvements	320		(125)	195
Total depreciable capital assets	5,768	12,473	(3,098)	15,143
Less accumulated depreciation	3,934	793	(2,656)	2,071
Net depreciable capital assets	1,834	11,680	(442)	13,072
Total	$ 8,140	$ 19,680	$ (11,444)	$ 16,376

Capital asset activity for the year ended June 30, 2001:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ -	$ 3,304	$ -	$ 3,304
Construction in process		3,002		3,002
Depreciable capital assets:				
Furniture and equipment	4,589	866	(7)	5,448
Leasehold improvements	320			320
Total depreciable capital assets	4,909	866	(7)	5,768
Less accumulated depreciation	3,140	794		3,934
Net depreciable capital assets	1,769	72	(7)	1,834
Total	$ 1,769	$ 6,378	$ (7)	$ 8,140

The Authority purchased 14.3 acres of land in the Chesterfield Valley on July 25, 2000. The land was used to build the headquarters for the Authority. The building was completed and the Authority moved its operations in April 2002. As of June 30, 2002, the Authority has satisfied all contractual commitments related to the construction of the building.

7. BONDS PAYABLE

The following table displays the aggregate changes in bonds payable for fiscal years ended June 30:

	2002	2001
Beginning bonds payable	$2,454,845	$1,697,894
Additional proceeds	70,580	809,350
Repayments	(52,879)	(52,399)
Ending bonds payable	$2,472,546	$2,454,845

Bonds payable at June 30, 2002 and 2001 consist of:

	2002	2001
Student loan revenue bonds, variable interest rates ranging from 1.25% to 2.33% at June 30, 2002 and from 2.75% to 4.15% at June 30, 2001 maturing from 2005 to 2032	$2,288,711	$2,268,610
Student loan revenue bonds, fixed interest rates ranging from 2.25% to 6.75% at June 30, 2002 and from 2.95% to 6.80% at June 30, 2001 maturing through 2022	183,835	186,235
Gross student loan revenue bonds	2,472,546	2,454,845
Less unaccreted discount	12,041	11,666
Bonds payable - net	$2,460,505	$2,443,179
Weighted average rate	1.54 %	3.01 %

The following is a summary of debt service requirements at June 30:

Fiscal Year	Principal	Interest	Total
2003	$ 23,019	$ 51,233	$ 74,252
2004	41,554	45,689	87,243
2005	12,984	45,253	58,237
2006	52,354	45,008	97,362
2007	3,555	44,639	48,194
Total fiscal years 2003-2007	133,466	231,822	365,288
2008-2012	115,880	213,090	328,970
2013-2017	50,000	205,176	255,176
2018-2022	103,300	199,344	302,644
2023-2027	493,650	179,175	672,825
2028-2032	1,576,250	75,288	1,651,538
	$2,472,546	$1,103,895	$3,576,441

Variable student loan revenue bonds consist of variable rate bonds and auction rate certificates. Variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a weekly basis. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Auction rate certificates bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days as stipulated in the related Bond Agreement. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2002 and may significantly differ from the rates paid in future periods. Fixed rate bonds pay interest at a rate specified in the related Bond Agreement.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the Bond Agreement. In addition, at June 30, 2002, $209,705 of the bonds are subordinate to the remainder of the outstanding bonds.

In connection with the 1994B student loan revenue bonds, the Authority entered into an interest rate swap agreement to more fully match the rate paid on the bonds with its underlying variable rate student loan collateral. The swap agreement expired on February 15, 2001. The swap agreement had a notional principle amount of $50 million with maturities and interest payments that coincided with the bonds. This agreement effectively changed the Authority's interest rate from fixed rate bonds to floating rate bonds adjusting weekly at approximately .8% above the U.S. Treasury Bill rate.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including monies and securities therein. For certain bonds, the Authority has entered into agreements with the Municipal Bond Investors Assurance Corporation, Bank of America N.A., State Street Bank and Trust and AMBAC Indemnity, whereby the parties have issued letters of credit or insurance policies to the Trustees as beneficiaries for the respective bondholders. The purpose of the letters of credit or insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include the minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2002 and 2001 is $412,690 and $427,985, respectively.

The respective bond resolutions establish the following special trust accounts for each bond series, unless otherwise indicated.

***Loan Accounts* -** The loan accounts are used to account for the proceeds of bond issues not required to be deposited in the debt service reserve accounts. Generally, amounts in the loan accounts may be expended (a) to finance Eligible student loans, (b) to pay bond issue costs, (c) to make deposits to the revenue accounts for the purpose of paying principal and/or interest on the bonds, and (d) to pay letter of credit fees.

***Revenue Accounts* -** The revenue accounts are used to account for all revenues received by the Authority. Generally, amounts in the revenue accounts are used (a) to make principal and/or interest payments on the bonds, (b) to fund debt service reserve accounts, (c) to pay estimated program expenses to the operating account, and (d) to reimburse the issuers of letters of credit guaranteeing the bonds for amounts borrowed under the letters of credit. Excess amounts in the revenue account may be transferred to the loan accounts or to optional redemption accounts.

***Operating Accounts* -** Amounts deposited in operating accounts are used to pay reasonable and necessary program expenses for the bond issues.

Debt Service Reserve Accounts - Under the terms of certain bond provisions, minimum amounts are required to be maintained in the debt service reserve accounts for related bond series. The total of these minimum requirements at June 30, 2002 and 2001 were $38,093 and $39,962, respectively. These funds are only to be used to make principal and/or interest payments on the bonds and any interest due on the borrowed funds. In accordance with the bond provisions, the Authority has purchased a non-cancelable Surety Bond in lieu of cash deposits in the debt service reserve accounts for certain of the bond obligations in the amount of $7,003 and $7,167 at June 30, 2002 and 2001, respectively. Such Surety Bonds expire on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to such bond obligations.

Rebate Accounts **-** Amounts deposited in the rebate accounts are used to pay the United States Treasury amounts required by Section 148 of the Internal Revenue Code.

As of June 30, 2002 and 2001, cash, cash equivalents and investments were segregated as follows:

	June 30,	
	2002	**2001**
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 103,705	$ 506,127
Revenue accounts	32,057	18,143
Restricted:		
Debt service reserve accounts	35,018	34,246
Rebate accounts	465	456
Total special trust accounts	171,245	558,972
Operating Fund:		
Unrestricted	14,230	9,578
Due to special trust accounts	8,427	9,379
Total operating fund	22,657	18,957
Total cash, cash equivalents and investments	$ 193,902	$ 577,929

8. LINE OF CREDIT

The Authority has available a $100,000 revolving line of credit. This credit agreement charges an interest rate of LIBOR plus .45% payable monthly (2.29% and 4.57% at June 30, 2002 and 2001, respectively) and is collateralized by the loans purchased with the line of credit. At June 30, 2002 and 2001 the Authority had $95,000 and $9,482 outstanding, respectively. The line of credit matured on August 28, 2002. Upon expiration, the Authority extended the line of credit under similar terms until November 27, 2002 in an amount of $40,000.

The following table displays the aggregate changes in the line of credit borrowings for fiscal years ending June 30:

	2002	2001
Beginning balance	$ 9,482	$ -
Additional borrowings	95,000	9,482
Repayments	(9,482)	
Ending balance	$ 95,000	$ 9,482

9. CONTRACTS AND COMMITMENTS

The Authority leases certain equipment and premises under non-cancelable operating leases which expire at various dates through fiscal year 2005. Minimum rental commitments remaining under all leases are as follows:

Year	Minimum Premise Rental Commitment	Minimum Equipment Rental Commitment
2003	$ 835	$ 188
2004	278	188
2005	-	110
Total	$ 1,113	$ 486

Total rent and leased equipment expense charged to operations amounted to $1,035 and $1,050 and in 2002 and 2001, respectively.

The Authority has five contracts to utilize electronic data processing systems. One of those contracts matures on April 30, 2003, a second matures on June 30, 2003, two mature on December 31, 2005, and the other contract remains intact until the serviced loans are paid in full. The contracts provide for monthly charges based on the number of student loan accounts serviced and the amount of computer equipment supplied.

Charges incurred under the contracts for the years ended June 30, 2002 and 2001 are as follows:

	2002	2001
Charges based on loan accounts	$ 3,871	$ 3,313
Hardware rentals	39	43
Total	$ 3,910	$ 3,356

10. EMPLOYEE BENEFITS

The Authority maintains a single employer defined contribution plan, the Missouri Higher Education Loan Authority 401(k) Plan (the “401(k) Plan”), which is administered by Merrill Lynch, for all employees who are at least 21 years of age, and who work in excess of 1,000 hours per plan year, and

who have been employed at least one year by the Authority. Employees may elect to defer 1% to 16% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. Fourteen investment fund options are available for choice by the employee. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. An additional 8% (for a total of 16%) of compensation may be deferred by employees, but is not matched by the Authority. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. During 2002 and 2001, the Authority contributed $263 and $277 and employees contributed $290 and $279 to the 401(k) Plan. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year.

Effective July 1, 2000, the Authority began offering a noncontributory defined benefit pension plan, the Missouri Higher Education Loan Authority Pension Plan (the "Pension Plan"), to supplement the benefits provided under the defined contribution plan. The Pension Plan is administered by A.G. Edwards Trust Company. Employees vest in this Pension Plan after five years of service. During the first year of the Pension Plan, employees with five or more years of service did not vest in prior service cost until June 30, 2001. The Authority has elected to recognize prior service costs over a 25-year period which represents the estimated remaining service lives of the employees at the Pension Plan origination date.

Substantially all employees of the Authority are covered by the Pension Plan. Pension benefits are based upon the employee's length of service and monthly compensation.

Pension Plan assets are invested primarily in growth and income stocks at the discretion of the trustee. During the current year the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2002 and 2001, was determined as part of the July 1, 2001 and 2000, respectively, actuarial valuations. The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used.

The following tables detail the components of net periodic pension cost. The funded status of the Pension Plan as of June 30, 2002 and 2001, the amounts recognized in the Authority's financial statements, and major assumptions used to determine these amounts are as follows:

	2002	2001
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 5,941	$ -
Actual return on plan assets	(317)	41
Employer contributions	1,660	5,937
Benefits disbursed from plan assets (including expense charges)	(62)	(37)
Fair value of plan assets at the end of the year	$ 7,222	$ 5,941
Net pension obligation (NPO):		
NPO at beginning of year	$ (4,509)	$ -
Annual required contribution (ARC)	1,848	1,428
Contributions for year	(1,660)	(5,937)
NPO at end of year	$ (4,321)	$ (4,509)
Percentage of ARC contributed	89.8 %	415.7 %
Major assumptions:		
Investment return	7 %	7 %
Inflation rate	4 %	4 %
Discount rate used for amortization of NPO	3 %	3 %
Salary scale	5 %	5 %
Amortization period (open) (years)	10	11
Cost method	Aggregate	Aggregate
Components of the ARC:		
Annual normal cost	$ 1,660	$ 1,335
Interest	(315)	93
Adjustment	503	
	$ 1,848	$ 1,428
Annual covered payroll	$ 5,742	$ 5,980
Annual pension cost	$ 1,848	$ 1,428
ARC as a % of payroll	32.1 %	23.9 %
Funding excess to annual covered payroll	67.9 %	75.4 %

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority was contractually committed to primary lending institutions to purchase student loans under purchase agreements. These agreements require the lending institution to offer all student loans generated to the Authority; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management intends to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority. At June 30, 2002 and 2001, the Authority was servicing $612,746 and $422,546, respectively, in student loans for these and other lending institutions.

12. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Code. Management estimates at June 30, 2002 and 2001, the liability to be $35,934 and $18,000, respectively, which has been provided for in the current financial statements, however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

The following table displays the aggregate changes in the arbitrage rebate payable for fiscal years ending June 30:

	2002	2001
Beginning balance	$ 18,000	$ 17,082
Additional liability	21,118	9,157
Student loan forgiveness	(2,671)	(7,657)
Payments	(513)	(582)
Ending balance	$ 35,934	$ 18,000

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Authority using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Authority's financial instruments are as follows:

	June 30, 2002		June 30, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 163,643	$ 163,643	$ 343,039	$ 343,039
Investments held by Trustee	30,259	30,259	234,890	234,890
Student loans receivable	2,458,765	2,497,170	1,951,055	1,947,487
LIABILITIES:				
Bonds payable - net	2,460,505	2,084,301	2,443,179	2,480,248
Line of credit	95,000	95,000	9,482	9,482
OFF-BALANCE SHEET INSTRUMENTS:				
Standby letters of credit	-	3,238	-	2,560

Cash and Cash Equivalents **-** For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments Held by Trustee **-** Investment securities are recorded at fair value.

Student Loans Receivable **-** Loans are categorized by repayment type (in-school, grace, repayment, and delinquent). The fair value is estimated using the Authority's current pricing policies; this estimated fair value approximates the amount for which similar loans could currently be purchased on the open market.

Bonds Payable **-** For fixed bonds, fair value was calculated from quoted market prices of the bonds. For variable rate bonds, the carrying amount is a reasonable estimate of fair value.

Standby Letters of Credit **-** The fair value is based on fees currently charged for similar agreements at the reporting date.

14. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The Authority has one segment that meets the reporting requirements of GASB Statement No. 34.

The outstanding bonds payable of the Authority consists of Student Loan Revenue Bonds. The Student Loan Revenue Bonds are issued in accordance with six separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2002. The Resolutions provide that the bonds are payable from the eligible loans pledged under the Resolutions, amounts deposited in the accounts pledged under the Resolutions and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund.

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2002 and 2001, are as follows (in thousands of dollars):

	2002		2001	
Condensed Statements of Net Assets	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Assets:				
Current assets	$ 24,185	$ 215,120	$ 20,082	$ 623,257
Noncurrent assets	113,838	2,377,595	21,599	1,929,836
Total assets	$ 138,023	$ 2,592,715	$ 41,681	$ 2,553,093
Liabilities:				
Current liabilities	$ 117,134	$ 12,971	$ 30,116	$ 48,890
Noncurrent liabilities	-	2,474,061	-	2,408,912
Total liabilities	117,134	2,487,032	30,116	2,457,802
Net assets:				
Invested in capital assets	16,376	-	8,140	-
Restricted	-	35,483	-	34,702
Unrestricted	4,513	70,200	3,425	60,589
Total net assets	20,889	105,683	11,565	95,291
Total liabilities and net assets	$ 138,023	$ 2,592,715	$ 41,681	$ 2,553,093
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 2,591	$ 144,395	$ 1,767	$ 147,713
Operating expenses	2,767	124,503	2,617	138,362
Operating (loss) income	(176)	19,892	(850)	9,351
Interfund transfers	9,500	(9,500)	6,388	(6,388)
Increase in net assets	9,324	10,392	5,538	2,963
Net assets, beginning of year	11,565	95,291	6,027	92,328
Net assets, end of year	$ 20,889	$ 105,683	$ 11,565	$ 95,291

Condensed Statements of Cash Flow	2002 Operating Fund	2002 Bond Fund	2001 Operating Fund	2001 Bond Fund
Net cash flows from operating activities	$ (81,442)	$ (328,677)	$ 1,495	$ (275,440)
Net cash flows from investing activities	4,000	204,977	(2,469)	(162,534)
Net cash flows from capital activities	38	(9,500)	(7,165)	-
Net cash flows from non-capital financing activities	85,012	(53,804)	8,526	654,478
Net increase (decrease) in cash and cash equivalents	7,608	(187,004)	387	216,504
Cash and cash equivalents, beginning of year	14,529	328,510	14,142	112,006
Cash and cash equivalents, end of year	$ 22,137	$ 141,506	$ 14,529	$ 328,510

15. SUBSEQUENT EVENT

On July 23, 2002, the Authority issued $700,000 in student loan revenue bonds under the 1994 General Resolution. The debt includes:

- $82,000 Senior Series 2002D taxable auction rate bonds, maturing July 1, 2032
- $82,000 Senior Series 2002E taxable auction rate bonds, maturing July 1, 2032
- $82,000 Senior Series 2002F taxable auction rate bonds, maturing July 1, 2032
- $82,000 Senior Series 2002G taxable auction rate bonds, maturing July 1, 2032
- $82,000 Senior Series 2002H taxable auction rate bonds, maturing July 1, 2032
- $60,000 Senior Series 2002I taxable auction rate bonds, maturing July 1, 2032
- $60,000 Senior Series 2002J taxable auction rate bonds, maturing July 1, 2032
- $60,000 Senior Series 2002K taxable auction rate bonds, maturing July 1, 2032
- $60,000 Senior Series 2002L taxable auction rate bonds, maturing July 1, 2032
- $25,000 Subordinate Series 2002M taxable auction rate bonds, maturing July 1, 2032
- $25,000 Subordinate Series 2002N taxable auction rate bonds, maturing July 1, 2032.

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